

ADDRESS BY THE COMPTROLLER GENERAL OF THE UNITED STATES
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CHANGING TIMES IN DEFENSE PROCUREMENT

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The General Accounting Office will complete 50 years of service in June 1971. We are planning suitable activities for this anniversary. It is appropriate to honor the past. It is even more worthwhile to use this anniversary as an occasion to reassess how the GAO can become a still more effective force for better administration and management in the Federal departments and agencies in the period ahead.

GAO, from its inception in 1921, has been an institution always seeking ways to increase its effectiveness in response to the needs of the Congress. Situations in which GAO has sometimes found itself in periods when changes in its methods become necessary are well illustrated by an anecdote I came across recently. As the story goes--

A big-game hunter was on his way back to camp one evening when an enormous tiger appeared out of the jungle, not 20 feet away. As the tiger was about to spring, the hunter fired his last cartridge and missed. The tiger sprang too far and landed 15 feet beyond the hunter who then ran for camp and got there safely.

The next day the hunter went behind the camp to practice a little shooting at close range. He heard a strange noise in the brush and went to investigate. It was the tiger--practicing short leaps.

If GAO moved forward in short leaps in the early years of its history, it has, in recent times, been taking longer and longer leaps in order to provide the broader types of examinations and analyses increasingly needed by the Congress. These

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needs have been particularly acute in the defense area and will remain so, as this audience is, no doubt, well aware.

For many years GAO has continuously directed a significant portion of its audit efforts in the review of Defense procurement, supply, and other activities. Shortly after I assumed the Office of Comptroller General, it became my objective to broaden the scope of GAO emphasis from inquiries into individual instances of waste and inefficiency to more extensive inquiries into basic causes of adverse conditions.

In line with this objective, in June 1966 I approved the reorganization of GAO's Defense Division along functional lines to make better use of its manpower resources, afford the most favorable basis for broadening the scope of reviews, and provide increasing response to the needs of the Congress. Under this organization GAO has been able to enlarge and intensify its reviews in the Department of Defense in the following areas: research and development, procurement, supply management, manpower, facilities and construction, support services, and management control systems. In view of the increasing significance and magnitude of weapon systems acquisitions, a separate group was recently established within the Defense Division under a senior operating official having the responsibility for reviews in this area.

As representatives of the Nation's top defense industries, this audience, as much as any audience in the country, deserves candor from the General Accounting Office. I would not want you to leave here this afternoon feeling uninformed about how GAO operates today in the defense area and how I expect it will operate tomorrow.

Appropo of this, Senator Ervin of North Carolina tells about a man who went to a lawyer about getting a divorce.

"Why do you want to divorce her?" the lawyer asked.

"Because she talks all the time."

"What does she talk about?"

"That's the trouble; she never says."

I want to take every reasonable opportunity to share with all interested parties my concept of the way in which we approach our task and to obtain a better understanding of how the problems we are concerned with look to others equally concerned--both in and out of Government.

GAO ASSISTANCE TO THE CONGRESS

Since the lack of capabilities and facilities to accumulate and evaluate information on which decisions must be based are major problems facing Congressmen and congressional committees, we believe that the present congressional emphasis on the role of the General Accounting Office is a direct outgrowth of the need of the Congress and its committees for more and better information.

This need, and the role that the General Accounting Office should fill in helping to meet it, was vigorously discussed in August by the Deputy Secretary of Defense, David Packard, speaking to the Armed Forces Management Association in Los Angeles. Referring to current problems in the Department of Defense, familiar to most of us here, Secretary Packard said:

"Let me first mention two things that won't help.

"It won't help for Congress to legislate detailed and inflexible rules governing procurement.

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"Nor will it help to put the General Accounting Office in the process of making management decisions. The GAO deserves the highest marks for auditing, but the talents of a good auditor are not identical with those of a good manager.

"The pressures are strong to insert the Congress and its right arm, the GAO, into the details of day to day management decisions in the Department of Defense. Until we in the Department and you in defense industry demonstrate that we can provide capable and efficient management, these pressures will continue."

I concur with Secretary Packard's assessment of GAO's role. GAO should not be placed in the position of assisting management to make decisions, for obvious reasons.

The Congress is dependent on the executive branch for most of its information about conditions in the country and in the world. It can hear testimony from interested groups, the academic community, and research organizations. It can have studies in limited number, performed by its own staffs, GAO, or the Library of Congress. Basically, however, the Congress never has been adequately organized or equipped to accumulate, analyze, and evaluate, independently of the executive branch, the vast amounts of information with which it must deal.

Many members are concerned with the ability of the Congress to make informed decisions affecting such vital matters as weapon systems selection, social programs, urban problems, and conduct of foreign affairs. Their complaints are that too frequently the studies and analyses obtained from the executive branch do not provide the complete rationale behind various alternative courses of action to permit the Congress to reach its own dispassionate conclusions.

Other factors or trends, familiar to all of us, have worked in concert to create the current clamor for more information in the Congress:

- The dissatisfaction with our military involvement in Southeast Asia.
- Concern over the degree of influence that the so-called military industrial complex might have on U.S. policy and actions.
- A rising Defense budget midst swelling sentiment that much of this money should be used to solve social ills, such as crime, poverty, and deterioration of the cities.
- The arrival on the scene of a number of new members of the Congress, many of whom have considerable impatience with what they believe to be cumbersome legislative procedures.

Many Congressmen are not willing to accept, without serious questioning, information submitted by the Department of Defense. They are looking for additional independent sources of information and objective evaluation of defense proposals. Turning more to the General Accounting Office for help is a natural alternative. Work which we do as a result of requests for assistance to the Congress has increased sharply in the past 3 years and now constitutes about 20 percent of the output of our professional staff.

Thus in the last year we saw the submission of several amendments to the Defense Authorization Bill. All of them had as their central theme that no funds were to be appropriated for the specified programs proposed by the Department of Defense until such time as GAO had performed a comprehensive study and investigation, including a review of the requirements for, and cost effectiveness of, the proposed systems

compared with alternative systems. You will recall that such amendments were introduced with respect to the CVAN-69, the MBT-70, and the C5A.

It was in this climate that the Senate Committee on Government Operations authorized Senator Ribicoff, as Chairman of the Subcommittee on Executive Reorganization, to conduct hearings on the role of the General Accounting Office in analyzing and auditing Defense expenditures. In his prologue, at the hearings last fall, Senator Ribicoff stated:

"It is essential that every dollar spent by the Federal Government be used as wisely and effectively as possible. The GAO can play a major role in this effort by monitoring and measuring the performance of all Federal programs and reporting on them to the Congress. This will make the Executive Branch more accountable to the Congress and give us the information necessary to make informed judgments on future expenditures."

This need is clear--sound and progressive planning, budgeting, accounting, and auditing must exist and their existence must be demonstrable to the Congress. The Congress must also know that the resource requests submitted to it are the product of effective, complete analyses which consider all reasonable alternatives--their costs and their benefits in terms of the objectives to which they are directed. It must also have the best information available for use in relating the costs and benefits of one program to those of other programs.

Let me repeat: the need is clear. The Congress wants and needs more information. It is looking to GAO to furnish much of this information. If GAO doesn't meet the challenge, then the Congress will find someone else to do it. We believe that GAO can and will meet the challenge.

Let me refer to several specific projects: our study of the feasibility of cost standards in defense contracts; our defense industry profits study; our "should cost" study in the area of weapons procurement; our reports to the Congress on the more costly weapons system in the three military departments; our studies of special activities, such as cost effectiveness analyses, management of contract changes, concurrency versus competitive prototyping, testing practices, cost estimating, and independent research and development.

Here is a brief status report on these projects.

COST STANDARDS

Eight months after GAO reported to the Congress its conclusions that cost standards for negotiated defense contracts of \$100,000 or more were feasible, the Congress acted affirmatively. An amendment to the Defense Production Act, extended for another year, established a Cost Accounting Standards Board of five with the Comptroller General as chairman, an executive director, and a staff.

This board shortly will undertake the task of developing standards designed to provide a greater degree of uniformity and consistency in cost accounting as a basis for negotiating and administering defense contracts. As everyone here knows, the press and members of the Congress have tried hard to define the future results of cost standards in terms of tangible annual dollar savings to the taxpayer. It will be some time before we can see, in tangible ways, the benefits accruing from development cost standards; in fact, I doubt if these benefits can ever be measured satisfactorily in terms of a specific dollar impact.

There have been expressions recently from some in the defense contract area suggesting that cost standards could benefit the defense contractor as well as the Government. At the General Accounting Office, we have held that this will prove to be the case. Any step which will lead to practicable standards for estimating and measuring costs should bring returns in the form of better management, fewer records to be kept, and therefore savings to the contractor quite as much as to the Government.

PROFIT STUDY

Most of you know that GAO was directed by Public Law 91-121 to conduct a study of profits realized on negotiated defense contracts. Originally, the Joint Economic Committee asked us to make this study. We suggested a strong preference for any such study to be undertaken either by a non-Government organization or by the Department of Commerce, if done within the Government. Moreover, a review by GAO on as sensitive a matter as contractors' profits deserved, we believe, a request from the Congress as a whole. This came in terms of an additional statutory directive to GAO. The Congress agreed with the Joint Committee, and the law just cited--the Military Procurement Authorization Bill for 1970--gave us the broader statutory base for undertaking such a job.

Our approach has been to review and examine into about 150 negotiated contracts at 37 contractor plants. We are seeking to develop profit rates as a percentage of costs, as a percentage of total capital employed in contract performance, and as a percentage of equity capital employed in contract performance. What we are finding is that profit rates expressed as a percentage of costs show relatively small variances among

the 150 contracts. Profit rates expressed as a percentage of total or equity capital employed in contract performance, however, vary greatly. We have found rates of over 200 percent of equity capital. These were exceptional, of course.

To obtain the information needed for the study, GAO sent out a questionnaire late in March to 153 contractors--81 large defense contractors, 47 smaller contractors, 10 subcontractors, and 15 Atomic Energy Commission contractors. These contractors account for over 60 percent of DOD procurement, 80 percent of NASA procurement, and a major portion of AEC procurement. By Labor Day we had received returns from 138 of the recipients, and either this month or by early October we expect the remainder to come in.

GAO regional offices are now engaged in verifying with the contractors various aspects of the data received. We have found that the work necessary for resolving various inconsistencies in the information received and for completing the study adequately will require more time than first allotted to us. Although the law specified a report be made by December 31, 1970, we have advised the Congress that we will be unable to furnish the report until the spring of 1971.

SHOULD-COST STUDY

Of equal importance and concern to this audience, I believe, is the GAO study now being conducted as to what weapons or other highly sophisticated products purchased by the Government should cost compared with what they do cost. This work also is being carried out in response to a request by the Joint Economic Committee.

Discussion of such a complicated and challenging undertaking must begin from the standpoint of the Committee's own definition of what it means by the term "should cost." Here is the definition.

"The should-cost approach attempts to determine the amount that weapons systems or products ought to cost given attainable efficiency and economy of operation."

GAO will make several reports to the Congress in the coming months on this matter. Our first report, issued in May, was confined to answering the question addressed to us by the Subcommittee of whether GAO believes that it is feasible for should-cost analyses and reviews to be applied to GAO auditing in the procurement field. We reported affirmatively.

We concluded that the objectives of negotiating a fair and reasonable price; establishing specific definitions of the scope of work; and conducting thorough, well-coordinated negotiations were, and should remain, major goals of the Government procuring agency. To achieve these objectives, Government agencies should, to the extent feasible, employ a capability to perform selective should-cost reviews in their procurement programs, particularly of major procurements and problem cases.

We believe that the most effective use of should-cost review results would be obtained before the award of a contract. At that point in time, the results of a should-cost review would be of maximum effectiveness in assisting the Government negotiator in awarding a fair and reasonable contract. More important, a potential Government contractor would be more likely to accept should-cost findings and to agree to implement corrective procedures.

GAO is now engaged in studies at four contractors' plants. These studies should provide detailed information as to:

- what problems may be met in making reviews of this nature,
- what size program or contractor activity should be reviewed, and
- what benefits may be expected.

You can expect several more reports from GAO on various should-cost type of reviews in this year and next.

WEAPONS SYSTEM REVIEWS

Let me turn for a moment to another activity of GAO in assisting the committees of the Congress. Late last year Senator Stennis asked GAO to help the Senate Committee on Armed Services in connection with air-to-ground missiles, of which there are some 20 in various stages of use or development. Three were selected as requiring critical decisions this year by the Committee.

Army's Tow and Shillelagh
Navy's Condor
Air Force's Maverick

Our staff attended about a dozen missile briefings given by the military services to the Committee's staff. On the basis of our work and the briefings, we furnished background information and issues to committee members for their consideration during the subsequent authorization hearings on such subjects as (1) completion of weapon development before production, (2) operational testing before production, and (3) production of duplicate weapons, especially missiles, by rival services.

Committee questions in previous years dealt, for the most part, with funding and schedules and rarely, as they did this year, with technical issues. It has been the unresolved technical issues that have caused most of the Pentagon's procurement headaches in recent years. We also furnished to the committee, for use in the authorization hearings, preliminary reports on the Maverick, Condor, and Tow and Shillelagh missiles. These reports included GAO observations on the missiles, possible alternative actions for the Committee to consider, and the advantages and disadvantages of each alternative.

GAO has since developed a comprehensive report on tactical air-to-ground missiles as a group. This report is about ready for issuance.

We are making similar examinations into both management and technical problems surrounding the development of two new fighter aircraft, the F-14 and F-15, and other new weapons systems for the appropriate committees. Reports on these examinations will be useful in the authorization and appropriation process.

We began last year to provide an annual report to the Congress, early in each session, on the status of major weapons acquisitions, showing cost fluctuations, schedule changes, and performance reliability. Our purpose in these reviews is to assess the entire acquisition and management process of the military services as to completeness, reasonableness, and the consistency with which the process is applied.

An important function of these reports is to provide the Congress with better information on what happens to a weapon system from the time the program is authorized until it is

completed, particularly in view of the recent interest and concern shown with respect to cost overruns--or cost growth, which is perhaps a more accurate term. It is especially important, as we see it, to be able to delineate the reasons for cost growth--inflation, program changes, modifications required in the development of the system, and the number of units purchased. Without this type of breakdown, discussion of cost growth can be meaningless and sometimes highly misleading. In our next annual report, which is planned for submission in January, we will make an effort to delineate the reasons for cost growth. In our opinion, the selected acquisition reports of the Department of Defense suffer from their inability to provide this information. Our approach is to work closely with the Department of Defense in seeing whether we can come into agreement on the basic report which reflects information that will remove, insofar as practicable, these sources of misunderstanding.

I should emphasize that these reports will not be confined to the Department of Defense but will be submitted to the Congress on other major acquisitions of NASA, AEC, Transportation, and other agencies.

COMMISSION ON GOVERNMENT PROCUREMENT

In November 1969 the Congress established the Commission on Government Procurement to conduct a broad study of the Government's current procurement statutes, regulations, policies and procedures, and the problems arising thereunder.

In our opinion, Government procurement is so burdened with complex statutes and regulations and is so interrelated with other governmental, social, and economic programs and policies that the Commission has an opportunity to suggest substantial improvements in procurement procedures which would benefit both Government and business. We believe that the Commission study has merit for the following reasons.

- The piecemeal evolution of Federal procurement law is generally designed to solve or alleviate specific and sometimes narrow problems as they arise.
- Federal procurement statutes are chiefly concerned with procurement authority and procedures and do not contain clear expressions of Government procurement policies.
- Implementing procurement regulations are voluminous, exceedingly complex, and at times difficult to apply.
- These procurement regulations have great impact on the rights and obligations of contractors.
- The level of spending for Government procurement is high.

For fiscal year 1968 the Department of Defense alone awarded contracts totaling about \$43 million for supplies and services, representing about 80 percent of total Government procurement expenditures.

We feel that the results of the forthcoming work of the Commission will have a significant impact on the management of Government procurement. We will give our full cooperation and assistance to the Commission during its study.

BLUE RIBBON DEFENSE PANEL

The report of the Blue Ribbon Defense Panel contains 113 recommendations. Since the study covered the basic concepts of organization at the topmost echelons of the Department of Defense, its recommendations, for the most part, either dealt with fundamental changes at the level of the Office of the Secretary of Defense and the Joint Chiefs of Staff or flowed from the concepts on which the recommendations for the fundamental changes were based.

Although there will be considerable debate and discussion over the possible restructuring of certain of these authorities and responsibilities, I am confident that Secretary of Defense Laird, Deputy Secretary Packard, and others will initiate many of the things that need to be done. We intend to follow very closely the developments in this area in the future.

We hope that the GAO reports were helpful to the Panel, and we find that much of what it had to say in the area of procurement closely parallels many of our report findings in this area. For example:

The Panel's report made it clear that one of the more serious problems in the Department of Defense was the lack of decentralization at the Secretary's level. The report points out, I believe, that some 26 different departments and agencies report to the Secretary of Defense but that none of these has total responsibility even in its own area of operations. The report shows clearly the need for more decentralization in the Office of the Secretary and for much clearer lines of authority, responsibility, and accountability for his

various deputies. The report has numerous acute observations as to the need for improved centralization of control in the procedures under which Government contractors attempt to carry out their jobs and for less interference, such as numerous and frequent reporting demands, as well as other kinds of demands doubtless well known to this audience. The implication left by the Panel is that lower costs can be achieved in the execution of negotiated contracts if the prime contractors and subcontractors were less hampered by red tape and that improvements in equipment can be expected. This of course is an age-old problem, and for that very reason it is time that improvements were effected.

It is of course not practicable to review the Panel's entire report on an occasion such as this, but I would like to mention my interest in the emphasis placed by the Panel on the need for substantial improvement in the rotation systems of the military departments. GAO has emphasized this need from time to time. In the procurement area, as one of our reports last month pointed out, the present system of selecting and developing procurement people prevents civilians entering procurement at the journeyman levels from reaching the upper levels. At the same time military officers enter procurement at supervisory levels without having had the procurement training in the lower levels necessary to do a bang-up job. This same unsatisfactory arrangement, from the career aspect, prevails in varying degrees in such other military areas as weapons development, intelligence, communications, and logistics.

A major portion of the work of the General Accounting Office in the Department of Defense and in the military

departments has been directed to the effectiveness, efficiency, and economy of operations, and the resultant recommendations were geared to the need for improvement in management control. GAO recommendations dealing with organizational structure and responsibilities have been addressed, for the most part, to the individual military department level.

CONCLUSION

Clearly the times demand changes in the Pentagon's methods of doing business with defense contractors and the contractors' methods of doing business with the Pentagon. As you are acutely aware, the procurement dollar is becoming scarcer and the competition is becoming stiffer. On both sides the problems are recognized. Deputy Secretary Packard has spelled them out bluntly enough, as already indicated. Your own National Security Industrial Association has issued a highly commendable "Defense Acquisition Study" containing numerous proposals for improvement with which GAO could associate itself. The Panel has completed its valuable work, and we await its implementation. The Procurement Commission is getting under way.

This is part of the change in the national climate. I am sure that, as good managers, many of you are asking yourselves: How do we adjust to today's changing priorities? Will defense industries be seeking ways in which they can bring the same imaginative skills that they have applied for so many years to defense production to, let us say, the national housing needs? or to transportation? or to water or air pollution? or to waste disposal?

These needs and problems may sound prosaic, compared with the sophisticated areas in which many of you have been working; but they are needs and somebody will fill them. Will any of you be participating--or, let me emphasize, contributing--to solutions to these rapidly developing priority needs, let us say 5 years from today? And how can the Government maintain an essential mobilization base to meet its changing needs?

My purpose, in these closing moments, is to encourage all of you to begin thinking more and more about ways and means by which you can help the Government in solving the formidable problems it faces in making the United States a far better place to live than we know today. Without the help and know-how of men such as yourselves, the industries that you represent, and the thousands you employ--who are equally concerned with the changes in their job patterns that the present is bringing about--these problems are not going to be readily solved. To the extent that your special talents can be adapted, you are needed on the civilian side of the Government quite as much as in defense.

Those of us here at the center, heavily involved in seeking better ways to improve management in the Federal Government, no doubt work under the illusion that many of our problems are unknown to the past and require pioneering solutions. But of course we should never forget the dictum that there is nothing new under the sun. The tools we use are different from those used in the past, but the problems as to

how we use them, or how we organize ourselves to use them, are ancient. In reading a Government report the other day, I came across this quotation:

"We tend to meet any new situation by reorganizing and a wonderful method it can be for creating the illusion of progress while producing confusion, inefficiency, and demoralization."

This has an uncomfortable ring of familiarity. When do you think these words were spoken? I will tell you: A.D. 60, by a Roman citizen. And where do you think I read the quotation? In the report of the Blue Ribbon Defense Panel.